APPENDIX J

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HEADLINE: Q4 2004 **Encore Capital Group** Earnings Conference Call - Final

BODY:

OPERATOR: Thank you. Good afternoon, ladies and gentlemen. And welcome to the **Encore Capital Group** fourth quarter 2004 conference call. At this time all participants are in a listen-only mode. Following today's presentation, instructions will be given for the question-and-answer session.

If anyone needs assistance at any time during the conference, please press star the followed by the zero. As a reminder, this conference is being recorded today, Thursday, March 3, 2005.

I would now like to turn the conference over to Ms. Moira Conlon (ph).

MOIRA CONLON, HOST, **ENCORE CAPITAL GROUP:** Good afternoon. Thank you, operator. We'd like to welcome everyone to **Encore Capital Group's** fourth quarter and year end conference call. Due to some technical difficulties, our press release just crossed the wire a few moments ago. It is, however, available now.

Today's webcast is being accompanied by a slide presentation. The presentation is available on our website at www.EncoreCapitalGroup.com on the events calendar, under the investors' page. With us today from management are Carl Gregory, Vice Chairman and Chief Executive Officer, Barry Barkley, Chief Financial Officer, and Brandon Black, President and Chief Operating Officer. Management will discuss the results for the quarter and year end, and some Company developments and will then open the call up to your questions.

Earlier today **Encore Capital Group** filed its 10-K for the for the year ended December 31, 2004. This is a complete report of Encore's results and I encourage you to read it thoroughly, because it contains a great deal of useful information.

Before we begin, I'd like to refer you to slide 2 of our slide presentation, which addresses forward-looking statements. I would also like to note that certain statements in this conference call and slide show constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company and its subsidiaries, to be materially different from any financial results, performance or achievements expressed or implied by such forward-looking statements. For a discussion of these factors we refer you to the Company's annual report, on form 10-K for the year ended December 31, 2004, filed with the SEC.

Forward-looking statements speak only as of the date the statement was made. The Company will not undertake and specifically declines any obligation to publicly release the results of any revision to forward-looking statements to reflect events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events. With that I would now like to turn the call over to Carl Gregory. Carl?

CARL GREGORY, PRESIDENT, CEO, **ENCORE CAPITAL GROUP:** Thank you, Moira. Good afternoon. Our fourth quarter performance capped an excellent year for Encore, in which we generated record levels of collections, revenue, and earnings per share. Our fourth quarter highlights compared to the fourth quarter of 2003 included the

following. Net income was up 48 percent to $5.7 million. Earnings per fully diluted share came in at $0.24. 50 percent higher than the same quarter last year. Revenue increased 46 percent. Collections increased 12 percent to $53.4 million and pre-tax operating cash flow was up 64 percent to $14.5 million.

It's notable that we achieved this strong growth despite scaling back on our purchases of new portfolios for the better part of 2004, because of a less attractive pricing environment. As we have mentioned many times, one of our competitive advantages is our varied business model that makes use of several different collection channels. During the fourth quarter we continued to see increased production out of our legal channel and our contingent agency outsourcing channel, which was developed earlier in 2004. For the full year, our collections through alternative channels, with the exception of the sales channel, more than doubled.

Turning to the purchasing market, our purchases for the first three quarters of the year were relatively modest, because of what we deemed to be a lack of opportunities that met our high standards. The market continues to be highly competitive, and it's looking like it could remain that way for quite a while. Accordingly, we have adjusted our strategy to reflect the current environment. We determined that we should not bypass profitable opportunities simply because they could not generate the high level of returns we have typically demanded, there are sufficient opportunities to purchase portfolios that can be nicely profitable for the Company. And in the current environment, it's in our best interest to acquire these portfolios rather than waiting for prices to come down.

With that being said, we invested $46.1 million in new portfolios in the fourth quarter, at an average purchase price of 3.86 percent of face value. Almost all of these purchases were credit card portfolios and that's where we found the most attractive opportunities in the fourth quarter. These purchases were made with our former credit facility that expired at the end of the year We were able to modify the terms of that credit facility during the fourth quarter, to put a ceiling on the total interest that we will have to pay on these portfolios. The lower interest expense associated with these portfolios will help offset the higher prices, and the resulting lower collection multiples and enable these portfolios to still generate nice profits for the Company.

On another note, I am very pleased to say that we have completed our Sarbanes-Oxley 404 compliance efforts and our independent auditors have positively affirmed management's conclusion that our system of risk control is effective as of December 31, 2004. Despite having our deadline for compliance moved up by one year because our status changed to that of an accelerated filer during 2004, Barry and his team were able to meet the tight timeframe for compliance. Our shareholders can have confidence in the integrity of our financial reporting. Now to discuss the fourth quarter numbers in detail, I'll you turn the call over to Barry.

BARRY BARKLEY, EVP, CFO, **ENCORE CAPITAL GROUP:** Slide 2 as Carl indicated, gross collections in the fourth quarter of 2004 increased by 5.7 million, or 12 percent. The 53.4 million as compared to the 47.7 million collected in the same quarter of the prior year The majority of this growth came from noncredit card asset categories which increased from $1.7 million last year to $6.1 million this year. We also experienced a further increase in productivity during this quarter, as average monthly collections per total employee, increased by 13.9 percent to 25.4 thousand from 22.3 thousand in the prior year's quarter. This is particularly notable given the sales declined as a percent of gross collections from 15.2 percent last year, to 6.1 percent this year.

In looking at collections by channel on slide 3, we see that the $5.7 million increase quarter-over-quarter reflects an $8.2 million increase in the external legal collection channel and a $4.3 million increase in our new contingent agency channel. This increase in total collections was achieved despite reducing sales by $4 million. Total operating expense increased by $8.1 million to $27.9 million in the fourth quarter of 2004. As a percent of gross collections, they increased from 41.6 percent in the fourth quarter of 2003 to 52.3 percent in the fourth quarter of 2004. As in the third quarter, there were two primary factors that contributed to the increase.

The first factor is the change in the mix of our collections. Sales, which is one of our lowest cost channels were down by $4 million. We were able to offset that decrease by increasing throughput from our legal and contingent agency outsourcing, which generated an additional $12.5 million in collections. However, the next impact was an increase in our cost per dollar collected.

The second factor is the increase in costs that are for the most part, not volume related. These include approximately $0.8 million in expenses related to our Sarbanes-Oxley compliance effort, as well as 0.1 million in SEC reporting and legal fees related to our secondary offering that was completed in January of this year. We have provided some guidance relative to our operating expenses going forward.

In all, we incurred approximately $1.2 million in expenses in 2004 related to our Sarbanes-Oxley compliance effort. While there will be some permanent increases in expenses that will be necessary to ensure that we remain in compliance, we expect about half of these expenses will not reoccur in the future.

We would also like to remind investors that we will begin expensing stock options in the second half of 2005 pursuant to the new accounting rules. Given the number of options outstanding at the present time, we would estimate that our pre-tax earnings per share would be reduced by $0.7 million per quarter, when we begin expensing the options. We will provide an updated estimate of the impact of any additional equity awards in our future conference calls. Our earnings continue to be impacted by the contingent interest feature of our legacy funding relationship.

Slide 4 shows the $0.19 per share of contingent interest was deducted before arriving at the $0.24 per share earned by the Company While we did modify the terms of our former credit facility in the fourth quarter, it will not have a material impact on the guidance we have previously provided, for the runoff of our contingent interest expense. We continue to expect that 2005 and 2006 contingent interest expense will be approximately 65 percent and 35 percent respectively, of the 2004 expense. With a continuing reduction beyond 2006.

Finally, pre-tax cash flow grew 64 percent to $14.5 million in the fourth quarter of 2004 from the $8.9 million generated during the prior year's quarter. We exhausted our net loss carry forward in the fourth quarter of 2003. And in addition moved into a higher tax rate throughout 2004. Going forward, we should no longer have increases in our effective tax rate to offset our earnings growth. I would now like to turn the call over to Brandon.

BRANDON BLACK, EVP, COO, **ENCORE CAPITAL GROUP:** Thanks, Barry.

I'd like to take a minute to talk about a significant addition to our growth plans for the Company. After a number of years of material increases in revenue and income, we are now in a very strong financial position. At the end of 2004, we had almost $50 million in cash and cash equivalents, and full access to our new $75 million credit facility with J.P. Morgan. The new credit facility provides much less expensive funding, for a variety of business purposes and is expandable to $100 million at our option.

Given our financial strength and flexibility, we are now in a position to begin pursuing acquisition opportunities that can expand our footprint into additional asset classes or collection channels. This is a highly fragmented market, which provides a great pool of prospects with expertise in bankruptcy, secured collections, health care debt, and other areas that we currently don't participate in.

The opportunity we see on the acquisition front is one of the reasons we brought in Paul Greenberg last year as our Senior Vice President of Finance. Paul brings a unique combination of experience, having been a partner in both the audit group and the M&A Services group at Deloitte & Touche. His experience will be valuable in our efforts to identify, price and effectively integrate acquisitions that can generate good returns for the Company. We're confident that we can continue growing and generate organic growth during 2005. We believe our ability to now layer in accretive acquisitions, enhances our opportunities to create additional shareholder value in the future. I'll turn the call back to Carl.

CARL GREGORY: Thanks, Brandon. On slide 5, I would like to call your attention to a new piece of information that we have begun including in our SEC filings. Which is the total estimated remaining collections for our portfolios. We have also provided the multiple of total collections to purchase price expected from these portfolios. As you can see, the 2001, 2002, and 2003 vintages are exceptionally strong. And we anticipate a lower multiple for portfolios purchased in 2004. This reflects our conservative posture when assigning initial collection multiples and the simple fact that $1 does not buy as much as it used to in this industry.

I would like to make a few comments about the collection multiples on this chart. First, even at a 2.2 multiple we still expect these portfolios to be nicely profitable for us. Second, we are highly focused on optimizing our collection efforts by continuing the development of additional collection channels, and leveraging our sophisticated analytics to assign accounts to the channel that can collect them in the most effective manner. We have demonstrated consistent improvement in the productivity of our collection efforts over the past few years, and it's our goal to continue this trend.

The collection multiple shown on this slide assume a stable level of collection productivity as that's the most prudent approach when assigning multiples. If we were able to generate further improvement in the collection productivity, then we would expect to have the opportunity to surpass the current multiples assigned to those portfolios. And third, as we have always communicated we are conservative by nature, which is reflected in the expected multiples that we assign to our portfolios. It has been our experience that we typically outperform the multiples we initially assign. We hope to continue that trend.

However, as far as our initial assumptions go, we remain conservative. We believe this will service us well with the implementation of SOP-03-03. We continue to believe that we won't have any material impairment that will need be recognized when SOP-03 is implemented.

In closing, the current conditions in the purchasing market present challenges to generating top line growth in the near term. Even though our purchasing increased on a year-to-year basis in 2004, we aren't getting the same volume of receivables to collect upon as we did in prior years. So it's important to understand that an increase in purchases does not necessarily result in a corresponding percentage increase in collections. This would also result in a lower revenue recognition percentage for the portfolios purchased under this scenario.

Given a continuation of the current pricing trends, we believe that our total collections in 2004 could be relatively flat with our 2004 levels. That being said, we believe 2005 will be another strong -- strong year of bottom line growth for the Company, driven primarily by continued high levels of zero basis collections, and the improving penetration of our existing portfolios. Coupled with disciplined expense control, and a significant reduction in our interest expense.

Looking out further, we believe that the future remains very bright. We have significantly enhanced our intellectual capital and management depth in the past year, and executives like Brandon and Paul are driving the process of adjusting our operating strategy, to reflect a market that's maturing. We're a nimble Company that can succeed in a variety of market conditions. We expect that our consistent ability to find new ways to enhance the penetration of our portfolios will continue to drive our organic growth.

And as Brandon mentioned, our financial strength and management depth, allow us to be an active participant in the mergers and acquisitions market, which can serve as another vehicle for creating shareholder value in the years ahead.

And now we'll be happy to answer your questions. Operator, please open the call.

OPERATOR: Thank you, sir. Ladies and gentlemen, at this time we will begin the question-and-answer session. [OPERATOR INSTRUCTIONS] Our first question comes from Charles A. Trafton with America's Growth Capital. Please go ahead, sir.

CHARLES TRAFTON, ANALYST, AMERICA'S GROWTH CAPITAL: Thanks. Carl, just to clarify something. I think you said that -- did you say that 2005 collections will be flat with 2004 collections?

CARL GREGORY: Yes, that's a possibility under the pricing scenario we see.

CHARLES TRAFTON: Right. Can we just go into that a little deeper. How much of your collections in '04 came from portfolios you bought in '03?

BARRY BARKLEY: $87 million.

CHARLES TRAFTON: . 87 out of -- ?

CARL GREGORY: 230.

CHARLES TRAFTON: 230.

CARL GREGORY: Yes. About a quarter. A little over a quarter.

CHARLES TRAFTON: And this year in '04 you grew purchases about 15 percent of the dollar growth?

CARL GREGORY: That's right.

CHARLES TRAFTON: And productivity is up. So can you give us a range besides purchases might be flat. Could they be up 10 percent, maybe down 5 percent, or is it looking pretty much like it's going to be flat?

CARL GREGORY: The point I was trying to make is the purchasing market right now in our view is very competitive. There seems to be quite a bit of portfolio available for sale at high prices. And so our success in investing wisely will depend on how our ability to identify and then close on the individual portfolios that we buy. As I've said before, this is very opportunistic, and our hope is to acquire throughout the year 2005 more in terms of dollars invested than we spent in 2004. But at this point there is no way to predict whether or not we'll be successful in doing that. And the spread of those purchases throughout the year.

BRANDON BLACK: Charles, this is Brandon. The other thing is -- one of the things we think people should be aware of, is just because you spent more, it doesn't mean you actually got more. I have a very simple analogy. If oranges were four for $1, and you spent $1, now they're 3 for $1, you still spent $1 but you get fewer oranges.

CHARLES TRAFTON: I get it.

BRANDON BLACK: In a rising price environment, just because you spent more dollars, doesn't mean you bought more collectibility.

CHARLES TRAFTON: Right. In '04, almost half of your purchases were done in the Q4 once you amended the credit agreement. And according to the ERC table you have in '04, your estimated multiple collections is 2.2, down from 3.2 the year before. Did that trail off during the year? Did it start higher and go lower?

CARL GREGORY: Prices varied through the year. I think prices tended to rise throughout the year, ending up at a higher level than they were at the beginning of the year, so the inverse of that would be the multiple decline.

BRANDON BLACK: Right.

CHARLES TRAFTON: Okay. How much zero basis did you have in the quarter?

CARL GREGORY: Hang on one second.

BARRY BARKLEY: Let's pull that up, Charles.

CARL GREGORY: $9 million.

CHARLES TRAFTON: $9 million. 9 million. What does that compare to against Q4 '03?

BRANDON BLACK: I have it at 10.7 last quarter.

CHARLES TRAFTON: That would be Q3 '04?

BRANDON BLACK: Right.

CHARLES TRAFTON: Right. And the order wasn't Q4 '03? A year ago?

BARRY BARKLEY: Year-over-year zero basis went up from 19.7 to 43.1. But we'll get you the Q4 '03 number.

CHARLES TRAFTON: 19.7 what?

BARRY BARKLEY: For the year. Zero basis (multiple speakers)

CHARLES TRAFTON: For the year. Okay. Okay. And how many employees did you have at the end of the year?

BRANDON BLACK: 700

CARL GREGORY: Right at 700.

CHARLES TRAFTON: So down a little bit?

CARL GREGORY: Yes.

CHARLES TRAFTON: What do you think is behind the trend in the outbound calling group not growing as well the legal and other channels?

CARL GREGORY: The number of people employed is not necessarily reflective of the productivity of the group. So we were able to hold the group relatively steady. In fact, it actually declined in size as it got more productive. And because as we keep stressing, we've got a variety of different channels we can continue to grow overall collections, and we're not dependent on either the outbound group, or any other group.

CHARLES TRAFTON: Right. Your employees are actually down year-over-year too.

CARL GREGORY: Right.

CHARLES TRAFTON: Okay. Thanks. I'm let somebody else. Thanks.

CARL GREGORY: Sure.

OPERATOR: Our next question comes from Richard Shane, Jefferies & Co.

RICHARD SHANE, ANALYST, JEFFERIES & CO.: Thanks for taking my question.

CARL GREGORY: Sure.

RICHARD SHANE: I think the -- you had given some pretty clear guidance in terms of collections. The other part of the puzzle I think that we need to understand is the revenue recognition. The recognition percentage was very high this quarter. Can you help us understand that, and can you also give where that's going next year? I guess put that in context of what's going to happen overall with revenues?

CARL GREGORY: Yes. I think the -- we put a new chart in the K which is illustrative of what is happening, the revenue recognition was high for the fourth quarter. And the reason was that it's a large amount of revenue that came from zero-basis portfolios, and a large amount of revenue that came from portfolios that had been largely amortized.

And so over time the zero-basis will decline, as we have said. We'll continue to buy new portfolios at lower revenue recognition rates, so the revenue recognition rate should gradually decline. But the important thing to focus on is the life-to-date revenue recognition rate, which is about 69 percent.

And there is a both a chart and a graph in the 10-K addressing that. It stems largely from our very conservative approach from the time we took over the Company through the present, of wanting to basically overperform and not be overpromising. So we've been very conservative in the revenue recognition. That's gotten us to a point where as we continue to penetrate the portfolios better, that's another key part of this, is we continue to penetrate the portfolios better than we thought at the outset. Those two things mean that we get to a very low basis on a large volume of our portfolios, and continue to have revenue coming out of it.

RICHARD SHANE: But, Carl, I guess this is the context that we need. The last couple of quarters' revenue recognition has trended into the mid-70s. This quarter it went into the mid-80s. When you say it is going to drift down, is it going to drift down from the mid-80s back to the mid-70s, or is it going to drift down -- assuming a normalized recognition in the mid-70s, below that level into the low-70s, or even into the 60s?

BARRY BARKLEY: One of the things, Rick, is if you look at that graph, the life to date multiple is 69.8 percent and the ratio of revenue to collections is 69.8 percent. That's a multiple of 3.3. You compare that to our table in the book in the Q, on page 22, our expected multiple is about 3.2. We're not being overly aggressive. Excuse me.

A large part, about half of the dollars in the fourth quarter came from portfolios that were at less than 50 percent, from about 0 to 50 percent of the original cost basis. And when we went through and increased our forecast on those because we're confident that we're still going to get it. We ended up with a --

RICHARD SHANE: Guys, you're breaking up on us.

BRANDON BLACK: I think at the end of the day what we realize especially on the '01, '02, and '03 purchases, the longer we penetrate and the deeper we penetrate, the higher this number has gone. Definitionaly, for example, if you have got a 4.7 multiple, it will average 80 at some point in time, your revenue recognition. If you were at 60 at one point, you end up being at 90 by the end of the curve. What we now believe is that on the overperforming portfolios, that will continue for a while, and so the recognition rate will drift down. It will not drift down in a step function like you described. It will gradually work its way down throughout the year. And will probably drift into the - call it the 70s range - probably the mid 70s range, then it will drift down beyond that.

As we look out, it will actually stay at reasonably high levels, because of the expected high levels of zero basis, and the continued penetration of those '01, '02, and '03 portfolios, and that's why we break out, in the other chart we showed you of stuff bought on the last year, the recognition rate on that is much lower. We have this great stored value that we're going to be able to tap into as we look out.

RICHARD SHANE: Got it. I'm going to try to -- this will be a fairly pointed question. Given where your guidance in terms of collections and what you're talking about in terms of revenue recognition, are you seeing, anticipating flat, up, or down revenues in '05 versus '04?

CARL GREGORY: I think the revenue is going to be higher you know for the reasons that we just said. We continue to penetrate the existing portfolios better. But you have to also recognize that among the portfolios that we just put on the books at say a multiple of 2.2, they're going to have a very low revenue recognition rate.

RICHARD SHANE: In the beginning?

CARL GREGORY: In the beginning. And -- I want to go back to the collections could be flat statement. Collections could also be a lot higher. It's a function of our ability to find the portfolios that we want to buy. If we're successful in finding a larger volume than we anticipate, we could have higher collections. We just want to decouple the

price that we pay, or the dollars that we invest in portfolios from the expected collections the way it's been coupled up in the past apparently.

RICHARD SHANE: Okay. Thank you, guys.

OPERATOR: Our next question comes from Joe Chumbler with Stephens Inc. Please go ahead, sir.

JOE CHUMBLER, ANALYST, STEPHENS INC.: Good afternoon.

CARL GREGORY: Hi, Joe.

JOE CHUMBLER: Just looking at the salary and wage line. It seemed to tick up a little bit year-over-year and sequentially as a percent of collections. I guess intuitively I would have expected the opposite, given the growth in legal and outsource collections. Am I missing something there?

CARL GREGORY: There were -- you know, that includes the bonus compensation for the people on, the collectors. It's volume driven. So it's going to rise as volumes rise.

JOE CHUMBLER: Okay. You haven't mentioned SOP-03. I'm wondering now that you're two thirds of the way through the first quarter, I know your conservative on your revenue recognition assumptions. Does that mitigate the chance of impairments this year?

CARL GREGORY: I don't -- I'm certainly not aware of any material impairments we're going to have to make. We feel very comfortable with our position. We've been speaking about it now for over a year. And have been planning accordingly. I don't anticipate any material impairments.

Although as I've said periodically, from time to time any company in our business is going to have some small isolated impairments, which is analogous to a bank having a bad loan. So the individual small impairments shouldn't be viewed by anyone as troublesome. Although, I'll say again, at the present time we don't anticipate any in the near future.

JOE CHUMBLER: Okay. And what about deal flow in the first quarter? You said pricing appears to be remaining tough. What about deal flow? Has it slowed down since the fourth quarter?

CARL GREGORY: No we've actually seen an awful lot of deals in the marketplace. So I don't know see any slowing of the flow, the supply is quite large. The prices are just very high. And so you have to be very selective in purchasing.

JOE CHUMBLER: Credit cards suffering from price pressure? Or is it across the board?

CARL GREGORY: I think it's pretty much across the board.

JOE CHUMBLER: Okay. And then I wanted to ask you about the ChoicePoint identity theft a couple of weeks ago. They had mentioned that maybe they would dial back some of the availability of data to collection firms. How would this possibly impact your business? Have you assessed that situation?

CARL GREGORY: They have no impact on our business, because we don't use them.

JOE CHUMBLER: Well, not just ChoicePoint specifically. What about just the data provider industry?

CARL GREGORY: You know, one could only speculate. I don't see any movement to limit across the board at this point the availability of the kind of data that we use.

JOE CHUMBLER: Okay.

CARL GREGORY: Certainly it's something to watch.

JOE CHUMBLER: Okay. And then Brandon, you had mentioned acquisition opportunities. Given the state of the industry, what kind of multiples do you expect to be paying for specialty buyers such as bankruptcy or healthcare Companies?

BRANDON BLACK: It's a great question. I don't want to speculate on the call. I think that we would only, our focus is on finding deals that would be accretive to us, which would mean doing it with the appropriate multiples, and it's hard to say. It's a function of the size of the business, their current earnings stream and how we think it could fit into what we're doing, so it's tough to give you an answer.

CARL GREGORY: It's a very fragmented industry. These industries are very fragmented. There is a wide range of types of players and their emphasis. So I think you see a very wide range of prices. I think what's important so us, is to

make purchases that have long-term strategic value to the shareholders. So that when we're making the investment we see a long-term growth benefit for the shareholders, from whatever it is we purchase.

JOE CHUMBLER: Okay. And finally, in terms of use of cash flow, I presume you would prioritize rational portfolio purchases first, and then maybe strategic acquisitions, what comes after that?

CARL GREGORY: I think those are the two things that we would, the only two things I can think of right now that would be on the plate. Other than our growth of the Company, internal growth.

JOE CHUMBLER: All right. Thank you.

CARL GREGORY: Sure.

OPERATOR: Our next question comes from Brian Gonnick (ph), Corsera Capital.

BRIAN GONNICK, ANALYST, CORSERA CAPITAL: Hi, good afternoon.

CARL GREGORY: Hi, Brian.

BRIAN GONNICK: Of the estimated remaining collections of $474 million, can you tell us how much of that is zero-basis collections?

CARL GREGORY: I don't think we break it out, Brian. I don't think we want to be that specific in this discussion.

BRIAN GONNICK: Well, let me rephrase the question then.

CARL GREGORY: Okay.

BRIAN GONNICK: If the -- this multiple you're showing, the collection multiple of 3.2 times, is that sort of the blended multiple?

CARL GREGORY: Yes.

BRIAN GONNICK: So if I were to take basically the book value of $138 million, right? And times it by 3.2 times, that looks like you're going to collect $440 million. Right?

CARL GREGORY: No, you've confused Book value and cost. Book value -- the multiple is a function of cost.

BRIAN GONNICK: Right.

CARL GREGORY: And book value is what's remained after amortization.

BRIAN GONNICK: Ah, right. Okay. So is there any way that you can guide us to kind of figuring it out?

BRANDON BLACK: I'll give you only some very general guidance, which is most of the portfolios bought prior to 2002, we've eaten through most of the basis. If you're going to look at that, that would be a reasonable really proxy. Where it gets blurry, as you get into '02 and beyond, there are some pools that are zero-basis, and some that aren't.

BRIAN GONNICK: Right. Okay. All right. I'll play with that. I guess another way to look at it is, in your historical model, I think you've used a multiple of 2.7 times, isn't that right, on average, historically?

CARL GREGORY: We've always used 2.7 as an example of a portfolio and how it's basically, I think we've used it to demonstrate how the business works.

BRIAN GONNICK: Right. I guess -- I would also presume that that's sort of like what you would use for your revenue recognition purposes? Kind of generally speaking, on average?

CARL GREGORY: The two are linked together.

BRIAN GONNICK: Right. With the exception being in '04, it looks like it's down to 2.2 times, is that right?

CARL GREGORY: In '04, that's right. So the '04 revenue recognition would be the lowest on that chart.

BRIAN GONNICK: So okay. I guess --

BRANDON BLACK: Brian, the challenge you have is you're seeing this for the first time. You don't have in '02, what we initially thought in '02 and what we ultimately got. Over time you'll be able to build this chart out, and get a sense of kind of the conservativeness built into the initial multiple, and how it plays out over time. It's hard to do it starting right now.

BRIAN GONNICK: Right. Let me ask the question then, do you expect zero-basis revenues in '05 to be similar to what they were in '04?

CARL GREGORY: I think that we expect zero-basis to decline in '05.

BRIAN GONNICK: Yes. Dramatically? It's still going to be a decent chunk, though?

BRANDON BLACK: We don't expect a dramatic change in zero-basis.

BRIAN GONNICK: Do you expect that you would be drawing down on your new credit facility this year?

CARL GREGORY: I can't speculate on that. It's a function of the opportunities we look at.

BRIAN GONNICK: Yes.

CARL GREGORY: We're certainly glad to have it there, if we want to draw on it.

BRIAN GONNICK: In your scenario of where you mentioned, you could be flat in terms of collections this year, and putting aside acquisition opportunities, I would suspect you're not going to really draw on it, would you?

CARL GREGORY: We wouldn't have to use it a lot.

BRIAN GONNICK: Right. My last question is can you tell us in Q4 was there any revaluation impact?

BARRY BARKLEY: The amount of impact on the quarter was very small. It was -- I think it was approximately $1 million.

BRIAN GONNICK: Okay. Okay. Thanks a lot, guys.

CARL GREGORY: Sure.

OPERATOR: Ladies and gentlemen, [OPERATOR INSTRUCTIONS] Our next call is a follow-up question from Richard Shane.

RICHARD SHANE: Guys, thanks again for taking a couple of more questions. Can you talk about what the collections environment looks like right now in Q1. Also given the building cash position, and the previous question about whether or not you would tap the facility. If you don't find acquisition opportunities, would you contemplate starting to buyback shares at this point?

CARL GREGORY: I think the collection environment is what you expect for the first quarter. It is seasonally our best quarter. I have no reason -- I don't see anything that that leads me to conclude that it's not going to be this year also. You know as to buying back stock, I just don't see -- we haven't discussed that. I'm pretty -- I'm very bullish on the opportunities we're seeing out there. I don't contemplate buying back any stock.

RICHARD SHANE: And -- I mean -- I guess the question would be, given that you're talking about opportunities. What sort of timing -- I guess you're probably going to be pretty sensitive here. Is this something that we could see imminently. Is there stuff fairly far along in terms of strategic opportunities or is this, you know, several quarters out?

CARL GREGORY: I think the best practice, Rick, is just to comment on them as they develop, and make specific concrete comments when it's appropriate to do so.

RICHARD SHANE: Okay. Thank you, guys.

CARL GREGORY: Sure.

OPERATOR: At this time we have no further questions. I would like to turn the conference back over to management.

CARL GREGORY: I want to thank everybody for participating in the call today. With respect to one of the questions that was raised, salaries actually went down as a percent of collections. Although it was extremely modest. It was about a half of a percent.

So in summary, I want to say that we look out to 2005 as a year full of challenges, but also opportunity. I think three years from now, we're going to look back at the three years we've gone through seeing strong solid growth, although it is going to be a lot lumpier than it was the last three years. We're pretty optimistic. We feel like we have a terrific balance sheet, a lot of liquidity and most importantly a very strong management team. Thank you very much.

OPERATOR: Ladies and gentlemen, this concludes the **Encore Capital Group** fourth quarter 2004 conference call. If you would like to listen a replay of today's conference, please dial toll-free, 800-405-2236 or local (303)590-3000 with the access code of 11024894. You may now disconnect. Thank you for using ATT teleconferencing.

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APPENDIX K

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HEADLINE: Q3 2004 **Encore Capital Group** Earnings Conference Call - Final

BODY:

OPERATOR: Good afternoon ladies and gentlemen and welcome to the **Encore Capital Group** third-quarter 2004 conference call. At this time all participants are in a listen-only mode. Following today's presentation instructions will be given for the question and answer session. (OPERATOR INSTRUCTIONS) As a reminder this conference is being recorded Thursday, October 28, 2004. I'd now like to turn the conference over Ms. Moira Conlon with the Financial Relations Board. Please go ahead, man.

MOIRA CONLON, IR, **ENCORE CAPITAL GROUP:** Good afternoon and thank you operator. We'd like to welcome everybody today to **Encore Capital Group's** third-quarter conference call. Today's web cast is being accompanied by a slide presentation which is available at www.EncoreCapitalGroup.com on the event calendar under the investor's page. With us today from management are Carl Gregory, Vice Chairman and Chief Executive Officer; Barry Barkley, Chief Financial Officer; and Brandon Black, President and Chief Operating Officer. Management will discuss the third-quarter results & Company developments and will then open the call up to your questions.

Earlier today **Encore Capital Group** filed its 10-Q for the third quarter. This is the complete report of Encore's results and I encourage you to read it thoroughly because it contains a great deal of useful information.

Before we begin, I'd like to refer you to slide 2 which is referenced to forward-looking statements. I would also like to note that certain statements in this conference call and slide show constitute forward-looking statements within the meeting of the Private Securities Litigation Reform Act of 1995. Such statements involves risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company and its subsidiaries to be materially different from any financial results, performance or achievements expressed or implied by such forward-looking statements.

For a discussion of these factors, we refer you to the Company's quarterly report on Form 10-Q and to the Company's annual report on Form 10K for the year ended December 31st, 2003, filed with the SEC. forward-looking statements speak only as of the date the statement was made. The Company will not undertake and specifically declines any obligation to publicly release the results of any revision to forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events whether as a result of new information, future events or for any other reason.

With that, I would now like to turn the call over to Carl Gregory. Carl?

CARL GREGORY, PRESIDENT AND CEO, **ENCORE CAPITAL GROUP:** Good afternoon. Encore continues to perform well achieving strong operating and financial results in the third quarter. In addition, we made some important organizational changes to strengthen our senior management and continued to exercise discipline in a purchasing of receivable portfolios.

Tuesday, the Board of Directors made 3 important organizational changes which are shown on Slide 2 ensuring that we will have the management talent necessary to capitalize on the opportunities we see ahead. Our Board of Directors elected Richard Mandell to the post of Chairman of the Board. Dick has been a Director of Encore since 2001 and will continue to serve as Chairman of the Audit Committee. Dick is a CPA, a graduate of Wharton with a background in accounting as well as investment banking. He currently serves on the Board to 2 other public companies. His experience and business acumen will be especially valuable as we continue to grow the Company.

Eric Kogan, who has been Chairman will continue to serve as the Director. Our board also elected Brandon Black, President and Chief Operating Officer of the Company. Brandon has been Executive Vice President and Chief Operating Officer for the past 5 years and has done a superb job. Brandon is the architect of many of the analytical procedures and collection processes that distinguish Encore's approach to the business. His intelligence, analytical ability and drive for success have been instrumental in Encore's success and in his new role will be key factors as we continue to build the business.

I will continue to serve as Chief Executive Officer and will become Vice Chairman working closely with Brandon to manage the Company. This change will strengthen our ability to pursue strategic opportunities as we develop them.

In addition, we have previously announced that Paul Grinberg has joined Encore as Senior Vice President of Finance. Paul is an important new member of the senior management team and continues our tradition of investing in experienced, talented people who can make immediate and lasting contributions to Encore's success. Paul has a terrific background. He is a CPA, has his MBA from Colombia and has substantial experience in accounting, finance and mergers and acquisitions. He will not only strengthen our finance and accounting group but also purchasing where his contacts and insights will be immediately helpful.

These additions and changes demonstrate the Board's commitment to serving the stockholders' best interest by recruiting and promoting the strongest possible people to manage the Company's business. The future holds different challenges and opportunities in the past. These changes are part of our efforts to be certain that we are as prepared for the future as we have been for the past.

Turning now to the quarter's results on Slide 3. Once again they were very good. Compared with the third quarter of 2003, collections were up 22 percent; revenue had an increase at 57.5 percent; pre-tax operating cash flow was up 82.1 percent; net income was up 89.5 percent; and earnings per fully diluted share came in at 25 cents, 66.7 percent higher than the same quarter last year. This continues the strong performance we experienced during the first 2 quarters of this year and is attributable to both our disciplined approach to purchasing and our multifaceted approach to collecting.

As we have said before, we believe the use of customer level analytics to drive purchasing and collections is a key distinguishing characteristic of Encore.

On the purchasing front, we invested $21 million in new portfolios during the quarter, up 10 percent from the prior year's quarters purchases of $19 million. Our average purchase price for the quarter was 2.91 percent which was down slightly from last year's 3.02 percent. This was not as much as we had hoped to invest but appropriate given the high prices for much of the available supply.

Year-to-date, our purchases have been $57 million or about $7 million less than last year's first 3 quarters. For the year-to-date, approximately 48 percent of our purchases have been non-credit card, compared with just 6 percent last year for the same period. We will have more to say about purchasing in a minute but the purchasing discipline and analytical approach we've always taken are more important now than ever before.

To discuss the numbers in detail I will now turn the call over to Barry

BARRY BARKLEY, CFO, **ENCORE CAPITAL GROUP:** Thanks, Carl. As Carl indicated and as shown on Slide 5, gross collections in the third quarter of 2004 increased by 10.8 million or 22 percent to 59.9 million as compared to the 49.1 million collected in the same quarter of the prior year. Driving this growth were increases of 6.1 million in creditcard collections and 5.3 million in other asset categories.

As you can see on Slide 6, we also experienced a further increase in productivity during this quarter as average monthly collections per total employee increased by 18.6 percent to $27,300 from 23,000 in the prior year's quarter. This reflects the 22 percent increase in gross collections while total employees increased only about 3 percent. As you know we consider this an important metric to monitor.

In looking at collections by channel on Slide 7, we see that the $10.8 million increase quarter-over-quarter reflects a $10 million increase in the external legal collection channel and a $4.6 million increase in our new contingent agency channel. This increase in total collections was achieved despite reducing sales by $3.3 million.

Looking now at the next slide, the strong revenue growth reflects 2 trends that are the direct results of our conservative revenue recognition strategy. The first trend is the substantial growth in zero basis income from 5.1 million in the third quarter of 2003, to 10.7 million earned this quarter. To refresh your memory, zero basis reflects -- represents collections on those portfolios where the carrying value or adjusted cost basis has been entirely amortized.

The second trend is the increase in the revenue recognition percentage for our accrual basis portfolios. This results from our policy of conservatively estimating multiples on each new portfolio and then letting performance dictate increases and future expectations. Under this methodology but later in the ownership period, the adjustment is made the larger the affect it can have on future quarters. Our third-quarter results show this impact.

We implemented our remaining value model in the fourth quarter of 2003 which increased future collections, expectations and substantial proportions to the relatively small book values.

As you can see from the chart on Slide 9, those portfolios purchased prior to the introduction of our remaining value model had a third-quarter revenue recognition rate of 81 percent. While that may seem high, the life to date accretion rate is only 67 percent. You can also see that our lifetime revenue recognition on portfolio bought in the past year is 51 percent and will only be adjusted as question (ph) experience dictates.

We believe our accounting practices which have typically resulted in lower revenue recognition rates earlier in the life of a portfolio and higher rates later in the portfolio's life position us very well to the implementation of SOP-2003-03.

Turning now to Page 10, total operating expenses increased by 8.8 million to 28.3 million in the third quarter of 2004. As a percent of gross collections they increased from 39.7 in the third quarter of 2003 to 47.3 percent in a third quarter of 2004. There are 2 contributing factors that I would like to discuss.

The first factor it that the mix of our collections changed between the third quarters of 2004 and 2003. Sales, which is one of our lowest cost channels were down by 3.3 million. We were able to offset that decrease by increasing our throughput from our legal and contingent outsourcing channels which generated an additional 14.6 million in collections. The net impact was an increase in our cost per dollar collected.

The second factor is that the increase in cost that are for the most part not volume related. These include expenses for the implementation of our S3 Sarbanes-Oxley and an increase and health-care costs.

Our earnings continue to be impacted by the contingent interest feature of our Legacy funding facility. Slide 12 shows that the 20 cents per share of contingent interest expense was deducted before arriving at the 25 cents per share that we reported. We would reiterate our guidance that the 2005 and 2006 contingent interest expense will be approximately 60 percent and 30 percent respectively of the 2004 amount.

Finally on Slide 13, pre-tax cash flow grew by 82.1 percent to 12.1 million in the third quarter of 2004, from the 6.6 million generated during the prior year's quarter.

I will now turn the call back to Carl.

CARL GREGORY: Thanks. As Barry mentioned, one of the primary metrics we follow is the monthly collections per average employee. Two other metrics that we also believe are quite important are shown on Slide 14. The first calculates how fast we are turning over our inventory and the second, how long it would take to fully amortized our existing portfolio at the current collections rate.

As Slide 15 shows, the turnover rate is calculated by dividing the sum of the beginning receivables balance and the annualized purchases by the annualized collections. As you can see, we are turning over our inventory about 1.5 times per year. The months to amortize collections is the receivables inventory at a point in time divided by the amortization rate. The resulting quotient is the total collections required to fully amortize the balance of the existing portfolio. When this number is divided by the average monthly collections, the result is the number of months required to amortize the portfolio. In our case 15 months.

By monitoring these 3 metrics, we ensure that we're not just collecting at an increasing rate but also penetrating the portfolios adequately.

Now Brandon is going to talk a bit about how we continually push the penetration model.

BRANDON BLACK, COO, **ENCORE CAPITAL GROUP:** Thanks, Carl. Much of the focus on our business right now is on the rising prices and its impact on collection returns. The underlying assumption is that collections will be static and only prices will rise. I would like to take a minute to challenge that assumption.

As we have stated on many occasions, one of the core aspects of our strategy is challenging the conventional wisdom that persists in the debt collection industry. We believe that our commitment to innovation has allowed us to create historical returns in excess of our core business model and will mitigate some of the anticipated margin compression by improving the performance of existing and new portfolios. This innovation may take the form of creating new revenue channels or uniquely using those common to the industry.

Our most recent innovation is an example of the latter, specifically the development of a targeted agency outsourcing program. In contrast to the typical outsourcing cycle that moves static pools of accounts from agency to agency on a prescribed rotation, we are using our analytics to determine those individual accounts that cannot be profitably collected through our internal processes and are placing them with outside partners to generate incremental returns.

In general, as we said before, we expect about 80 percent of the accounts we purchased to pay us nothing during our ownership period. Recognizing that as a huge opportunity, we started a business development team late in 2003 to pursue new strategies for penetrating that large pool of accounts. Some areas of focus for us were low balances, accounts with no contact information and accounts beyond their legal statutes.

In the third quarter of 2004, collections from this channel amounted to $4.6 million, up from nothing in 2003. We believe much of these collections are incremental to our champion strategy and that channel will grow in 2005 and beyond. We are continually pursuing profitable liquidation strategy that will leverage our talented and deep management team. We believe our account level analytics will continue to unlock additional value on our portfolios and this approach should keep improving liquidation of our entire portfolio and provide flexibility to buy in the future.

CARL GREGORY: Thanks, Brandon. Much has been said about the purchasing market over the last 9 months or so and I want to add a couple of personal thoughts and observations. Our better-known competitors and we would probably agree that too many deals are selling at prices not supported by the fundamental economics of the business. Our business is complicated and success only begins with buying the right portfolio at the right price. Ultimately success can only be realized by collecting well at a reasonable expense ratio.

The profitable returns generated by Encore, our public competitors and some of our larger private competitors over the last couple of years have been quite visible and have attracted a large amount of investment capital into the industry, contributing to a significant rise in the rise of the price of portfolios. In our view, a large portion of this money has flowed into companies whose business model is based on activity rather than a multi-disciplined approach to purchasing and collecting.

Interestingly, some of these activity based firms may be paying these higher than appropriate prices even though in our opinion, the underlying value of the portfolios they are buying measured in terms of ultimate collectibility has been degrading because the sellers have become much more sophisticated in choosing what to sell. Without the type of solid analytics we employ its difficult if not impossible to detect changes in portfolio quality before purchasing the accounts. By the time the purchaser realizes there's a quality issue, it may be too late.

Consequently it seems possible that over time many of these companies will fail to generate the returns they anticipated, reducing their access to capital and potentially requiring them to sell their remaining portfolios and exit the market. If and when this occurs, the results-oriented companies, such as Encore, will be in a strategically advantageous position to capitalize on such an event. Until the market stabilizes, we believe it's more important than ever to maintain discipline in purchasing in order to balance future profits growth and collections growth.

Before concluding, I'd like to remind everyone about the new accounting rule that will be implemented in the first quarter of 2005. We believe Encore is well-positioned for the adoption of SOP-0303. As Barry has indicated, we believe that our revenue recognition and amortization have been both appropriate and conservative. We don't anticipate any material impact from the implementation of the new rules.

Encore has a strong balance sheet, management resources and analytical skills to succeed in the challenging markets ahead. We believe the future is full of opportunity although it may be different than the past. We strongly believe that the

market's natural weeding out process will ensure a return to prices supported by fundamental economics of the business. We are prepared to capitalize on those opportunities that are appropriate.

Now at this time, we would be happy to answer your questions.

OPERATOR: (OPERATOR INSTRUCTIONS) Joe Chumbler from Stephens Inc.

JOE CHUMBLER, ANALYST, STEPHENS INC.: Thanks. Good afternoon everyone. Just start off a question on the amortization rate. If I back out the contingency fee, collections, does that get close to about 30 percent for the quarter?

CARL GREGORY: I'm not sure what bearing that has.

BARRY BARKLEY: The contingent fee collections aren't a revenue source in terms of a different business. It's actually contingent firms working our accounts we own as a company. Unlike for example, you might be thinking about PRA (ph) who has a contingent business. This isn't a contingent business.

JOE CHUMBLER: But you guys received cash collections via outsource collectors and that was reported in your cash collections number, right?

CARL GREGORY: That is correct.

JOE CHUMBLER: And you're calculating your amortization rate based off of revenue that you recognized?

CARL GREGORY: Revenue recognized on all collections regardless of source.

BARRY BARKLEY: Yes. Because the contingent agency accounts are spread throughout all of the portfolios.

JOE CHUMBLER: So I guess my question is did that lower your amortization rate in the quarter since it included these contingency -- outsourced contingency fee collections?

CARL GREGORY: No, I don't think it had any affect at all because a dollar collected is a dollar collected for revenue recognitions at this point.

JOE CHUMBLER: Let me try a different angle. On the second-quarter call you had indicated that your amortization rate would be increasing?

CARL GREGORY: Yes.

JOE CHUMBLER: It came down fairly dramatically sequentially. Why is that?

OPERATOR: Do you have any other further questions, sir?

CARL GREGORY: Wait a minute. We haven't answered his question.

OPERATOR: I apologize.

BARRY BARKLEY: I'm not quite clear what you're driving act. I think on the slide on page 9 the difference between the Q3 revenue percentage in 1 or 100 percent is the amortization rate. What that slide does is it shows that on the zero basis portfolio is essentially they were almost entirely revenues. The accrual basis portfolios are in 2 buckets; those that we've acquired in the last year on which the amortization rate was about 40.2 percent and all of the other ones where we -- and that is the impact of the adjustments that we had taken that created a very large revenue recognition rate during this period of time because they were close to the end of their life. As a result, more dollars were attributed. But if you look at the far right hand column, you can see that the 81.2 amortization rate on a life-to-date basis is 66.9 percent. The amortization rate on a lifetime basis for those portfolios is 33.1 percent.

BRANDON BLACK: What 2 numbers are you using? So you are saying it went down from what to what?

JOE CHUMBLER: Was your amortization rate about 22 percent in the quarter?

BARRY BARKLEY: It was 27.3 percent.

JOE CHUMBLER: Let me just go back over the numbers and follow-up with you later.

CARL GREGORY: That would be fine. We would welcome your call.

JOE CHUMBLER: My next question is just what do you need to do to achieve your reduction in contingency interest expense over the next couple of years?

CARL GREGORY: It will naturally decline as we continue to collect on the portfolios because it's specific to the portfolios that were financed using the Cargill debt. So in the normal course of our collection activities, we will pay off the remaining principal under the individual note and then as the collections from the individual portfolios decline over time so will the contingent interest.

JOE CHUMBLER: Is there a certain level of purchasing you need to maintain to maintain a certain mix in your finance receivable?

CARL GREGORY: No, it simply is -- a catch to the portfolio is that we purchased using it prior to 12-31 of this year. So it's not tied, not linked to anything else.

JOE CHUMBLER:

Thanks guys.

CARL GREGORY: Sure.

OPERATOR: Charles Trafton with America's Growth Capital.

CHARLES TRAFTON, ANALYST, AMERICA'S GROWTH CAPITAL: Carl, where is the zero basis coming from? Is that coming from the portfolios purchased 5 of more years ago since you are assumed 5 years life or is some of that some of our more recent vintage since you have moved up the timer period a little bit recently?

BARRY BARKLEY: If you go to our model and what we talked about last quarter you will see that on portfolios that were 2 years out we had achieved the 2.7 multiple on most of our collection. The majority at these portfolios are in years 3, 4, and prior. Most of them are in years 3 and 4. There is actually some in years -- we bought 2 years ago. It really represents those portfolios that we collected much more rapidly that we thought and by the time we implemented our adjustments in the fourth quarter of last year, there just wasn't any basis left.

Those 80 portfolios will be a static pool in the sense that they will continue to decline as a group and as we employ our revised question methodology, we may have 1 or 2, but we shouldn't have large numbers of portfolios during this group. The way to look at that pool is a static pool that will decline over time.

CARL GREGORY: Largely though, those portfolios were purchased in 2001 and 2002. Does that help?

CHARLES TRAFTON: Mostly '01 and '02. Yes.

CARL GREGORY: There were some in 2003, Charles. I guess the point is they're relatively recent purchases.

CHARLES TRAFTON: Some portfolios you bought in '03, you've already collected the 5 year's worth?

CARL GREGORY: We've already collected what we originally projected.

CHARLES TRAFTON: Right. Did you talk about -- somebody asked earlier about amortization rates in the future. Should that fluctuate much in the next 2 or 3 quarters as you go into '05?

CARL GREGORY: I guess I would encourage you to look at the slide on page 9 and the answer is different in each of those buckets. The zero basis income for those 80 portfolios will have no amortization obviously and that will continue to erode over time. The portfolios that we've acquired in the last year essentially have an amortization rate of about 40 percent and over the life of that pool that will increase slightly unless we -- as you recall, we revalue portfolios after 6 months. And if after 6 months of experience the date that we learned about the customers and what we experienced in our collection channels causes to increase the forecast, we will.

And the final group is 100 portfolios that are currently at about a 19 percent amortization and that will continue to drift down but it will be a fairly high bucket, a fairly low amortization rate, I'm sorry. If you look at it in those -- we will continue to report out these traunches each quarter which should help you begin to forecast what you think our earnings will be.

CHARLES TRAFTON: And legal channel was up again a lot this quarter, is that going to be your best performing channel for the foreseeable future?

CARL GREGORY: It's certainly an important channel at 30 percent of our collections and it will continue to represent a large part of our total. I don't know that it will grow to be much greater than 30 percent of the total going forward.

CHARLES TRAFTON: Okay. Thanks.

OPERATOR: Rick Shane with Jefferies & Co.

RICK SHANE, ANALYST, JEFFERIES & CO.: Three questions. Actually just two because one has been answered already. What was the increase in revenue from the retained interest during the quarter -- that was up fairly sharply?

CARL GREGORY: In April of this year we fully amortized the remaining balance of the retained interest on our balance sheet and consequently thereafter every dollar we collect on that is zero basis income.

RICK SHANE: It's just coming through a zero basis. That's helpful. The other question was from that slide on page 9 that you referred to, that's excluding any portfolios that are on our cost recovery basis at this point?

BARRY BARKLEY: Yes. We only have one portfolio that has a book value of about $4,000 right now so it will be essentially -- we're essentially over, through all of the cost recovery portfolios.

RICK SHANE: That was it. All my other questions have been asked and answered.

OPERATOR: Justin Hughes with Philadelphia Financial.

JUSTIN HUGHES, ANALYST, PHILADELPHIA FINANCIAL: Good afternoon. You gave us some really clear guidance on what will happen with the contingency interest payment in '05 and obviously that's a direct result of collections. What are your collection assumptions to get to that reduction in contingency for '05?

CARL GREGORY: Justin, we just elected consistently not to give guidance with respect to collections or revenue or profits looking out.

JUSTIN HUGHES: I'm not asking for guidance. I'm just wondering what was used to make those assumptions?

CARL GREGORY: I'm not sure I can answer the question without giving guidance.

JUSTIN HUGHES: My next question is you guys are timely enough to get your Q out before the call -- one of the few companies that does, and when I --

CARL GREGORY: Thank you for noticing.

JUSTIN HUGHES: And you moved your call up by a couple of weeks too.

CARL GREGORY: That's right.

JUSTIN HUGHES: But when I look at your 2004 pools, to date you've collected 26 million and when I compare that to your '03 pool at the same time that had collected 59 million -- so it's down over 50 percent when I compare those 2 data points. Is that a fair assessment of how much more competitive the pricing is in '04?

CARL GREGORY: I think one of the things you have to do is remember that in the first group, the older group, last year's group, we had a higher sales component. That's a meaningful number. I think that makes a big difference.

JUSTIN HUGHES: So in the '03 pool you sold more portfolios off?

CARL GREGORY: More portions of the portfolio.

BRANDON BLACK: Generally when we sell portfolio, we sell at the time of purchase which is where the greatest opportunity to get a spread on what you paid. So most of the sales for example the 3.3 million in reduction in sales in this quarter would have been in the prior year would have been on new portfolios.

JUSTIN HUGHES: You've given the more competitive pricing environment, how much -- could you quantify for us how much lower your expectations are for returns because even if you're going to get the same collections at a higher price, it's going to be a lower return.

CARL GREGORY: You're right, I think one of the challenges has been, as I tried to indicate, we don't want to drive collections by sacrificing profits. So the real skill here we think is balancing both of those things. It is a more competitive market. We expect to see lumpiness in the purchasing side of our business. And what we're purchasing is a raw material that drives both collections and revenue in the future. It's possible we could see lumpiness in revenues and collections in the future also.

BRANDON BLACK: The other thing, we tried to get across and it might not have been clear and what I said was, one of the things we're spending an equal amount of time working on is improving the return and not expecting to only collect a certain amount of dollars. Over time as these channels prove out, I think we'll see better returns than were expected but ultimately our goal is to maximize that penetration to hopefully offset some of that price increase.

JUSTIN HUGHES: Last question. One of the advantages you guys have is that you have a flow agreement that historically accounted for about -- I think it's about 35 percent of your purchases. How much did that account for this quarter and how long is that agreement in place or is there something that's kind of always open for negotiation?

CARL GREGORY: That agreement actually expires at the end of this year although we've had that agreement several years and it has expired previously. And we've always renewed it when it did expire. So I can't predict what will happen when it expires at the end of this year. We would certainly sit down and see if we can make a financially feasible deal with the seller.

JUSTIN HUGHES: How much did that account for in the quarter for your -- of the 21 million in purchases?

CARL GREGORY: Around 30 percent.

JUSTIN HUGHES: Around 30 percent. Thank you very much.

OPERATOR: (OPERATOR INSTRUCTIONS) At this time we have no further questions. I'd like to turn the conference back over for any concluding comments.

CARL GREGORY: Thank you all for tuning in to our conference call. As I said, we've had a fine third quarter and particularly with the changes in our management, we're very excited about our talent and our ability to capitalize on some opportunities that we see in the future. So tune in for the next one in about 3 months.

OPERATOR: Ladies and gentlemen, this concludes the **Encore Capital Group** third-quarter 2004 conference call. If you'd like to listen to the replay of today's conference, please dial in at 303-590-3000 and you will need to enter the access code of 11013486, followed by the pound sign. Once again, thank you for participating in today's conference. At this time you may now disconnect.

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APPENDIX L

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HEADLINE: Q2 2004 **Encore Capital Group** Earnings Conference Call - Final

BODY:

OPERATOR: At this time I would like to welcome everyone to the **Encore Capital Group** conference call. (Operator Instructions). Thank you. Ms. Conlon, you may begin your conference.

MOIRA CONLON, INVESTOR RELATIONS, FINANCIAL RELATIONS BOARD: Good afternoon, and thank you, operator. We'd like to welcome everybody to **Encore Capital Group's** second quarter conference call. Today's webcast is being accompanied by a slide presentation which is available at www.EncoreCapitalgroup.com on the event calendar under the investors page.

With us today from management are Carl Gregory, President and Chief Executive Officer, Barry Barkley, Chief Financial Officer, and Brandon Black, Chief Operating Officer. Management will discuss the second-quarter results and company developments and will then open up the call up to your questions.

Earlier today, **Encore Capital Group** filed its 10-Q for the second quarter. This is a complete report of Encore's results and I encourage you to read it thoroughly because it contains a great deal of useful information.

Before we begin, I would like to refer you to slide two which addresses forward-looking statements. I would also like to note that certain statements in this conference call and slide show constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company and its subsidiaries to be materially different from any financial results, performance, or achievements expressed or implied by such forward-looking statements. For a discussion of these factors, we refer you to the Company's quarterly reports on Form 10-Q and to the Company's annual reports on Form 10-K for the year ended December 31st, 2003, filed with the SEC. Forward-looking statements speak only as of the date the statement was made. The Company will not undertake and specifically declines any obligation to publicly release the results of any revision to forward-looking statements to reflect events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events, whether as a result of new information, future events, or for any other reason.

With that I would now like to turn the call over to Carl Gregory. Carl?

CARL GREGORY, DIRECTOR, PRESIDENT & CEO, **ENCORE CAPITAL GROUP,** INC.: Thank you, Moira, and good afternoon to all of you.

Encore enjoyed another good quarter. Our collections, revenue and net income all increased. In addition, we closed a terrific new loan with J.P. Morgan Chase that dramatically lowers our cost of borrowing, increases our flexibility, and should result in better financial returns for Encore.

Finally, just after the end of the quarter, we closed the biggest purchase we've ever made on terms we considered quite attractive. We are very excited about our industry and its future, but most importantly, Encore's ability to excel in the future.

Barry will go into detail about our results in a moment, but I would like to share with you the highlights shown on slide three. Compared with the second quarter of 2003, our collections were up 23 percent, revenue increased 54 percent, pre-tax operating cash flow was up 84 percent after the exclusion of the onetime benefit in Q2 of 2003, and net income grew by 69 percent.

Continuing on to slide four, the most noteworthy accomplishment in the quarter other than our strong financial results was the closing of our new loan. It is a material improvement over our previous arrangement and it provides the flexibility the Company needs for the remainder of 2004 and beyond. The financial terms are better in two key areas.

First, we had the choice of tying our investments to either prime plus zero or Euro dollar plus an applicable spread, which can vary between 200 and 300 basis points. Our old loan had a base rate of prime plus 200 to 300 basis points depending on the amount outstanding. As nice as this improvement is, the most important difference is that the new loan has no contingent interest feature, or any other participation feature. All other things being equal, the absence of future contingent interest expense will contribute to a big improvement in Encore's financial results.

Encore recorded contingent interest of $16 million for all of 2003 and $17 million in the first six months of this year. To put this in perspective, if you could completely eliminate contingent interest in the first half of 2004, our earnings per share would have been 94 cents, or 88 percent higher. Although we will continue to pay contingent interest on those portfolios financed with our secured financing facility, it will decrease rather rapidly. In 2005, we expect it to be only 60 to 65 percent of the 2004 amount, and in 2006 only about 25 or 30 percent of the '04 expense, before it completely goes away, which could in effect double our net income over this period before factoring in any underlying business growth.

Our industry has seen a great deal of change in the past four years, most notably there has been a recognition that the disciplined, long-term players have produced excellent returns. That recognition has brought new capital into the market. Many of these new entrants are attracted to a return expectation without understanding the complexity of the business. They tend to rely on the conventional methods of collection, often working exclusively through collection agencies. Our principal planning assumption is that this business is constantly evolving

We have listed the three most important likely changes on slide five; they are -- better capitalized competitors, smarter sellers, and greater diversity in the types of assets available for purchase.

We believe our business model is especially well-suited to this changing environment. Specifically, our business model emphasizes customer-level rather than portfolio-level analytics, innovative and flexible collection processes and conservative accounting.

The keystone to everything we do is customer-level analytics -- understanding the individual customer and his changing ability to pay. Prior to purchase and throughout our ownership, we analyze the individual customer's ability and willingness to pay. We are always asking the same question -- can this particular customer pay us all or some of what he owes now? By focusing on the customer and information about him, we are able to move comfortably across various asset types as well as the portfolio ages or time since charge-off. In this process, a score is generated for every single account we own and the score is refreshed quarterly to ensure that it maintains its accuracy.

The second major aspect of our business model is our use of innovative collection strategies that are driven by the underlying collectibility score of each customer. In other words, to fully benefit from the new information we are generating about the individual customers, we have to be able to apply different collection strategies as appropriate, or at least be able to apply the traditional approaches in new ways that will be more effective.

We now have eight unique revenue channels that each contribute more than $1 million per month in collections, including direct mail, balance transfer, external legal, and our recently developed agency outsourcing strategy.

Finally, we are committed to conservative accounting. We're willing to push the envelope on analytics and process, but not accounting. Recognizing that much of what we were doing was new and untested, we decided to report as fully and clearly as possible about what we had accomplished, but not assume any more about the future than our experience to date would permit.

And now, Barry will walk through our second-quarter financial results.

BARRY BARKLEY, EVP & CFO, **ENCORE CAPITAL GROUP,** INC.: Thanks, Carl.

As you can see on slide six, the second quarter of 2004 was a very strong quarter with gross collections of 57.4 million, up 23 percent from the second quarter of 2003. Revenue amounted to 43.6 million, an increase of 53.5 percent,

while operating expenses increased 39 percent to 25.4 million. This resulted in income before taxes of 9.3 million, up 67.8 percent over the prior year's second quarter, while net income rose 69.1 percent to 5.6 million.

Slide seven further examines gross collections. The $10.8 million increase in gross collections reflects continued leveraging of our additional collection channels that do not require commensurate increases in the number of employees. As I stated earlier, we had a 23 percent increase in quarter-over-quarter collections. During the same period our total employees increased only 13.3 percent, from an average of 670 people in Q2 of 2003 to 759 for the quarter ended June 30th, 2004.

Our high collector retention rates, coupled with our innovative alternative collection strategies, resulted in an increase of 8.6 percent in the monthly average collections per employee, to 25,200 from 23,200 during the quarters ended June 30th, 2004 and 2003, respectively. As we have discussed in prior calls, it is our goal to continually improve the overall productivity of each employee in the Company instead of just focusing on our collectors.

Another noteworthy fact in the second quarter was growth in collections despite the relatively small amount of portfolio sales. Sales have the effect of increasing cash collections in the period when the sale takes place, but lowering the multiple -- the purchase multiple we recognize over time. Therefore, we only sell when we believe we can significantly improve our position. This quarter sales were only 8 percent of total collections, compared to 14 percent in the same period last year.

Total revenues grew 15.2 million to 43.6 million, or 76 percent of total collections. This compares with 61 percent of total collections in the second quarter of last year. The increase in revenue recognition is a function of two continuing positive trends, shown on slide eight.

First of all, zero-basis revenue on portfolios which no longer have a book value grew 241 percent, from 3.3 million in the prior year's quarter to 11.1 million in the second quarter of this year. Second, our performance on portfolios with a remaining book basis continues to be stronger than our adjusted forecasts. The result is that we are seeing the natural transition to higher accretion percentages given our conservative initial revenue recognition. Our life-to-date accretion is still very conservative at 63.4 percent. I would refer to the new vintage (ph) analysis table in the quarterly report filed with the SEC on page 48, which shows you collections by year of origination.

Turning now to page nine. Total operating expenses were 25.4 million, or 44 percent of gross collections, compared with 18.3 million, or 39 percent of gross collections in the second quarter of 2003. This five percent increase in our expense ratio is a function of three things -- first, increasing employee benefit costs, including health-care; second, additional corporate compliance costs for Sarbanes-Oxley implementation and SEC filing costs related to our Form S3; and third of all, lower sales volume for the quarter.

Other variances were largely related to the increased volume of collections and reflect the growth in the costs of our external legal collection channel and the continued growth in our agency outsourcing channel. Despite the increases in the second quarter, we expect our cost per dollar collected to fluctuate around our 40 percent target, depending upon the mix of revenue sources in any one period.

The bottom line can be seen on page 10. Income before taxes as a percent of gross collections increased 67.8 percent to 9.3 million. Net income increased 69.1 percent to 5.6 million, as compared to the prior year's quarter. On a fully diluted earnings per share basis, we earned 24 cents in the second quarter, an increase of 41 cents -- 41 percent -- excuse me -- over the prior year.

We run the business on a cash basis, and our strong improvement is highlighted on slide 11. Pre-tax cash flow from operations increased 84 percent, from 8.1 million to 14.9 million. This excludes the 7.2 million litigation settlement recovered in the second quarter of 2003. The Company exhausted its federal and state tax net operating loss carryforwards in the fourth quarter of 2003 and began to make income tax payments in 2004.

Turning now to purchases. As you can see on slide 11, our investment in portfolio continues at a good pace. During the second quarter of 2004, the Company spent 19 million to purchase approximately 759 million at face value at a blended purchase price of 2.51 percent. Credit card portfolios represented 67 percent of the total purchases in the second quarter, and non credit card portfolios represented the remaining 33 percent.

Not included in the second quarter purchase is the $13 million acquisition of a portfolio representing approximately 421 million at face value that was negotiated in the second quarter and closed immediately after the end of the quarter. Approximately 84 percent of this portfolio consists of non credit card accounts.

Taking into account our $13 million acquisition, our year-to-date investment in portfolio through July 2004 of 53.4 million is slightly ahead of the 50.6 million investment in portfolio through the prior July year-to-date. On a year-to-date basis, credit card represents 51 percent of the purchases, while alternative paper has risen to 49 percent.

CARL GREGORY: Thanks, Barry.

Purchasing is, obviously, quite important, and I believe we do it very well. However, we approach it differently than most. When meeting with shareholders, analysts and lenders, we invariably spend a significant amount of time discussing the purchasing environment. Because there has been so much focus on it lately, I'm going to ask Brandon to talk about our recent experiences.

BRANDON BLACK, EVP & COO, **ENCORE CAPITAL GROUP,** INC.: Thanks, Carl.

Without question, there has been a general upward pricing trend for unsecured consumer receivables. However, as mentioned in prior calls, those increases vary with the age of the portfolio and the product type. The largest increases appear to be in older paper with less pressure on fresh paper. We have two unique strategies for managing through this rising price environment, and they are listed on slide 13.

First, our consumer level evaluation process allows us to identify those portfolios with the largest spread between expected return and market-clearing price. Our internally developed statistical models take into consideration data provided by the sellers, our historical performance on similar accounts, and data we purchase from third parties. This is a substantial competitive advantage because we believe we are one of the few, if not the only company, focused on valuing individual consumers, not portfolios.

Second, over the past three years we have successfully broadened our sources of paper along three dimensions -- age, paper type, and seller. In any given month, we are evaluating transactions in many different asset classes regardless of age or seller. This has allowed us to identify significant opportunities in the various markets, which is critical to maintaining a disciplined purchasing philosophy. The portfolio acquisition we announced in early July was a direct result of this diversified strategy. We worked closely with the seller to negotiate a transaction on terms that we believe are quite attractive, without it going out for competitive bid.

Interpreting quarterly purchase price fluctuations is more difficult to address, and is probably the biggest red herring in our industry. Purchase price does not translate into collection returns. To use a sports metaphor, it is a measure of the degree of difficulty of the dive, but does not give an investor the ability to predict future collection returns. These returns are ultimately driven by the collection capability of the company and how closely actual collections correlate to assumptions in the business model.

We believe there are two more accurate measures of future success -- they are inventory turnover ratio and estimated remaining amortization period. These two metrics are detailed on slide 14 and are valuable measures of the quality of receivables on the balance sheet. They can also provide a good indication of whether a company is paying appropriate prices for portfolios.

The inventory turnover ratio is calculated by dividing the existing receivables inventory at the beginning of the period, plus any new purchases, into collections for that same period. For example, if we started the year with a $10 investment in receivable portfolios, and we spent another $10 buying new portfolios in that year, our total portfolio balance would be $20. Now, if we collected $30 in that same year, our annual portfolio turnover ratio would be 1.5 times.

You can take the analysis a little further and calculate the duration of the estimated remaining amortization period. You start with the receivables balance at the beginning of any period, and you divide that by an appropriate historical amortization rate to obtain the amount of future collections required to bring the balance to zero. For example, if you begin the year with investment of $10 in receivable portfolios, and had an amortization rate of 25 percent in the prior year, then you would need to collect $40 to reduce the existing book value to zero.

Finally, you divide the average monthly collections into the total collections to determine the estimated remaining amortization period. In this example, if we assume average monthly collections of $5, it would take eight months to amortize the balance. In reality, collections are not constant and tend to decline over time. Therefore, the longer it takes to amortize the balance, the greater the risk of not achieving the forecasted collection targets.

To take this from the hypothetical to the actual, please turn to slide 15. Encore's inventory turnover ratio using annualized purchase and collections was 1.5 at the end of the second quarter. It is worth noting that this metric has been relatively stable over the past year, during a period of time when there has clearly been some pricing pressure in the marketplace. We would caution you against tracking fluctuations on a quarter-to-quarter basis, as inventory turnover can

be impacted on a temporary basis by a quarter where there is a lot of purchasing activity or a quarter where there was a lot of collections, such as the seasonal impact we see in the first quarter of the year.

The bottom half of the slide calculates the estimated remaining amortization period for our receivable portfolios' balance on June 30th, 2004. Using the average monthly collections for the first six months of the year, we would need just over four quarters to fully amortize the current balance. We believe these calculated metrics are industry-leading and provide good evidence of the disciplined approach we have been using for purchasing, and the conservative nature of our accounting They can also be used to compare companies in our industry and are easily computed using publicly available data.

In summary, we are comfortable our purchasing philosophy will continue to yield sufficient volumes of profitable portfolios, and believe all will be well served by focusing on the two new metrics I introduced instead of the average price paid for portfolios in the quarter.

CARL GREGORY: Thanks, Brandon. The metrics we discussed today hopefully give you a clear picture of how well the Company is doing. When viewed along with the traditional measures of financial performance, we think an investor can get a more complete understanding of Encore's performance

In summary, we had another good quarter. Our new loans should be a big boost to earnings, and we are encouraged about the future of the business.

We would be happy to take your questions.

OPERATOR: (Operator Instructions). Richard Shane, Jefferies & Company.

RICHARD SHANE, ANALYST, JEFFERIES & COMPANY: A couple of questions. One is, on -- there was a lot of fluctuation this quarter on the cost, operating expenses per dollar collected. And Barry, you had made the comment sort of as you were going through that that you expected it to normalize at about 40 cents on the dollar collected. Can you give us some explanation of why it was down so much in the first quarter, popped up this quarter, and then sort of help us understand why it stabilizes in the back half of the year around the 40 percent level?

The other question is, it looks like during the quarter your lifetime collection expectation on the existing pools increased. Can you talk us through what the ratio is going forward, or what your expectation is going forward?

BARRY BARKLEY: On the expenses, a couple of things occurred. Obviously, the first quarter has in general on a seasonally-adjusted basis the strongest quarter in terms of collections, and therefore the ratio, other things being equal, would be lower. We had some, and we will continue to have in the third quarter, some nonrecurring expenses related to the implementation of Sarbanes-Oxley, as well as our S3 filing costs. And while we, obviously, can't say that we won't do additional S filings or 33 F. filings, we don't see any more in the near future. And there is clearly -- this was a filing which the Company had to pay all of the registration costs under the registration rights.

Second of all, there were some increases in the medical and healthcare costs that we're working very actively on. We, essentially, by June of next year, will have in place a plan that we think will give the employees a great deal of incentive to actively manage their costs. So we will probably continue to see the effects of that for the next couple of quarters. But most of all, the sales being the lowest component of the total collections in this quarter -- sales are a very low-cost channel for us, so when they are there, they are there with a very small cost; and when they're not there, the small cost is gone but a bigger amount of collections are gone, so it dilutes the ratio. And then on the lifetime collection expectations (multiple speakers)

CARL GREGORY: What we did this quarter, this is our third quarter of revaluation of portfolio. And each quarter, the amount of revaluation continues to decline, meaning that we are picking up less and less, as we had anticipated we would. Our impact on this quarter was about $3 million in revenue and about 900,000 on contingent interest expense. So all-in-all, not a hugely significant ratio. The multiples that we see going forward are probably now just to 2001 -- the years 2000, 2001 -- in our financials. In the back of the Q, there is a table on, I think, page 48 that shows the multiples. So hopefully that helps.

RICHARD SHANE: I'm looking at that table; so somewhere between -- closer to three times as opposed to 2.7 historically?

CARL GREGORY: Probably closer to 3.5 I would say.

RICHARD SHANE: And there was one thing that you said that I'm not sure I understand. I understand how the revaluation would affect the revenue recognition, but I'm not sure I understand how it impacts contingent interest expense, because I thought that was actually based on dollars collected, not revenues recognized.

CARL GREGORY: It's based upon the back end of the portfolio. And essentially, if you recall, Rick, prior to the fourth quarter of last year, we kept shortening our portfolios. We kept the original (inaudible) of the curve, so we shortened the average life from 54 months down to around 31 months. And now we're going back the other way, and essentially we are adding collections back and increasing the total amount under the curve. So we are ending up about 41 months, I think. We are actually sharing residual collections here, which is as we increase the back-end, about 30 cents of every dollar on the back-end goes to (indiscernible).

BARRY BARKLEY: But the accrual for the contingent interest is based on the lifetime expectations from the portfolio. So as we increase the amount we expect to collect lifetime, we are increasing our accrual.

RICHARD SHANE: Got it. That makes sense. I was looking at it on a cash basis; I wasn't looking at it on an accrual basis. Thank you, guys.

OPERATOR: Richard Eckert, Roth Capital Partners.

RICHARD ECKERT, ANALYST, ROTH CAPITAL PARTNERS: Just a quick question, probably more for Barry. It seems that the revenue from retained interest grew sharply to 810,000, and yet I believe that that has amortized down to zero. Can you explain that?

BARRY BARKLEY: In essence, Rich, we covered all the book value of the retained interest, and so we're now getting approximately a couple of $100,000 a month. And every dollar that we get is recognized as revenue since we have no more basis to recover. So it's essentially zero basis income.

OPERATOR: Audrey Snell, Brean Murray & Co.

AUDREY SNELL, ANALYST, BREAN MURRAY & CO.: Nice quarter, gentlemen. Can you give us some help on how the other line item in revenue servicing fees and related income is looking over the next few quarters? Is that tailing off on a consistent basis or what?

CARL GREGORY: We only service a small amount. It's a legacy portfolio, and it -- we actually gave all of the portfolio back to the owner 18 months ago, I believe. And so the only amounts that we're continuing to service are those that are in active Qs or in litigation. So this amount should runoff in the future. Because some of it is in litigation, it could take awhile for it to run off completely.

AUDREY SNELL: Carl, eventually will it get to zero?

CARL GREGORY: I think so.

AUDREY SNELL: The other question is collection and legal costs shot up markedly in the quarter, about 1.2 million sequentially. Can you explain that or give us a little help on that one?

BARRY BARKLEY: The big change was legal recoveries shot up substantially and the ensuing cost went up also, but the cost per dollar collected went down in the quarter from that channel from about around 40 percent to about 38.5 percent. But that was strictly volume-driven and it improved as a ratio of the dollars collected.

AUDREY SNELL: Can that improve further, based on volume increases?

BARRY BARKLEY: You know, as we've said in the past, it's about where it can possibly go. So you will see it move up and down as the numbers change, but I wouldn't expect much improvement.

OPERATOR: Justin Hughes, Philadelphia Financial.

JUSTIN HUGHES, ANALYST, PHILADELPHIA FINANCIAL: I just wanted to ask about the revenue per dollar collected. That's gone up quite a bit, and I know part of it is the impact of the zero-basis portfolios. But this quarter you actually had less from the zero-basis portfolios and your ratios still went up higher.

CARL GREGORY: Yes. They're really, as you have indicated, Justin, they're two moving parts. We had less but we still had $11 million on total collections of 56, where last quarter we had about 12 on the collections of about 64. So clearly, zero basis is continuing to be a strong part of our income. The other part is, if you go back to our business model where we pay $100 for a portfolio, and we set it up initially on $270 of collections, and prior to the fourth quarter of last year we had not increased the amount under that curve. As a result of that, on well over half of the portfolio is we were

through most of the book value. And then on probably about a fourth of the remaining ones, our book value was very small. So as a result of that, any increases in future collections will end up making the ratio very high. In other words, let's say we had gotten through 250 of the $270 of collections -- if we had another $50 of collections, you would be spreading that -- as a percent of total collections it would be a very high percentage, which is one of the reasons that we showed the -- pardon the sirens in the background -- which is one of the reasons we showed the cumulative percentage of accretion to total collections, and will continue to disclose that as we go forward, at 63.5 percent for all portfolios.

JUSTIN HUGHES: Okay. Is that where you expect to trend back to over time?

CARL GREGORY: I think as we buy more portfolios and the mix changes, both as zero-basis diminishes and as we have gotten through pretty much of our upward adjustments out of the existing portfolios, as the mix tends to shift in favor of new purchases, we would expect it to go back down into the low 60s.

JUSTIN HUGHES: Okay How many more quarters do you expect to be revaluing the portfolios?

CARL GREGORY: Well, essentially we will revalue them every quarter, but we would expect the impact of the revaluation to be a fairly small amount as we go forward in future quarters.

JUSTIN HUGHES: What was the EPS impact this quarter?

CARL GREGORY: It would be about $2 million pre-tax (inaudible) would be about a million, would be about (multiple speakers) five cents.

JUSTIN HUGHES: Five cents? Okay. Last question. One of your competitors this morning kind of talked about their collections by month. And they said that April and May were very strong, and then they said they saw a noticeable drop-off in June. And they think that maybe that the big gains and the strengthening of the economy are slowing down. Did you see a similar thing in your collections for the quarter?

BRANDON BLACK: Frankly, we don't discuss the collections by month, but we have not seen any material change in collections, relative to prior months or relative to our model.

OPERATOR: (Operator Instructions). Audrey Snell.

AUDREY SNELL: Barry, with regard to this new lending arrangement with J.P. Morgan, do you have the option of choosing the LIBOR or the prime-based rate more than once? In other words, can it be changed month by month or quarter by quarter? How does that work?

BARRY BARKLEY: It essentially is -- yes, we can. And we have, I think, 30 buckets in which we can place LIBOR related debt. So if we for example look at what -- put what amount of loan will be outstanding over a six-month period, we can put that in a six-month LIBOR bucket; and depending upon our forecast of rates, we may want to pick a shorter bucket or a longer bucket depending on whether we think rates are going up or down -- or down or up rather. So we have an enormous amount of flexibility in this credit. So essentially we will probably borrow at prime base to begin with until we accumulate a bucket of indebtedness. And for example at the end of the July, we are anticipating that we're going to -- in the next week we're going to roll that over into a LIBOR-based bucket -- probably a 60-day LIBOR, and then we will accumulate collections during the quarter.

AUDREY SNELL: Will you hedge that at all?

BARRY BARKLEY: You know, we are looking at that. We haven't made a decision yet. I do think that the trend of rates, obviously, is up. And at some point -- I think right now the hedge rates show the effect of that already. So if we think it's going to go up even more than the forecast, then we probably will hedge. We're having some conversations with the Banc One folks -- J.P. Morgan banking.

AUDREY SNELL: Do you have the option of fixing that rate during the course of this agreement?

BARRY BARKLEY: Yes. Fixing that through hedges, yes.

AUDREY SNELL: But not without the hedge?

BARRY BARKLEY: But not without the hedge, correct.

AUDREY SNELL: And one last question. What is the term of this, three years?

CARL GREGORY: Three years.

AUDREY SNELL: And it's 75 million; can you increase that amount?

BARRY BARKLEY: Yes. It's an expandable -- it has an accordion feature that will allow us to go to 100 million.

OPERATOR: (Operator Instructions). There seem to be no further questions. Please go ahead with your closing remarks.

CARL GREGORY: We had another excellent quarter and we are excited about the rest of this year. We appreciate you tuning in to our conference call. Thanks very much.

OPERATOR: (technical difficulty) today's conference call. You may disconnect at this time.

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